

CITY OF SEDRO-WOOLLEY
Skagit County, Washington
January 1, 1994 Through December 31, 1994

Schedule Of Findings

1. The City Should Improve Internal Controls Over Expenditures And Budget Appropriations

Our examination of the City of Sedro-Woolley's 1994 budget operations revealed expenditures exceeded budgetary appropriations in the Cemetery Fund (102), Arterial Street Fund (104), LID 1991-1 Debt Service Fund (204), Reserve for Current Expenditure Capital Fund (302), Equipment Reserve/Fire Fund (320), and the 1973 FHA Sewer Revenue Bond Redemption Fund (405).

As previously reported in conjunction with our audit of fiscal year 1993 and addressed to the mayor and the city council, the city's 1993 expenditures exceeded budgetary appropriations in the Parks Fund (101), LID 1988-1 Debt Service Fund (203), LID 1991-1 Debt Service Fund (204), GO Debt Service Fund (205), LID 1991-1 Construction Fund (303), RV Park Development (304), and the Reserve for Police Equipment Fund (321).

Cities are prohibited from incurring expenditures in excess of budgeted appropriations by RCW 35A.33.120, which states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing year. Unless otherwise ordered by a court of competent jurisdiction . . . the expenditures of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year

The overexpenditures appear to be due to the city's lack of a comprehensive system to monitor incurred expenditures prior to receipt of an invoice, resulting in the city's noncompliance with budgetary requirements.

We recommend the city ensure budget monitoring at the department level or establish a centralized purchase order system to track budget availability.

2. The City Should Improve Internal Controls Over Cash Receipting System

Our review of the City of Sedro-Woolley's cash receipting system revealed the following internal control weaknesses:

Treasurer's Office:

- a. Moneys received through the mail at the city Treasurer's Office are opened by one individual, sorted by another employee and then are dispersed in to the individual city department's mailboxes, where they are picked up by the various department employees for receipting and endorsement.
- b. All cemetery cash receipting, billing, and accounts receivable duties are performed by the same person.

Parks Department:

- a. Rediform receipts, an unofficial document available at office supply stores, are used for receipting recreational vehicle park revenues.
- b. All the recreational vehicle park's receipting, depositing, and monitoring duties are performed by the same person.
- c. Recreational vehicle park deposits are not made in a timely manner and cash is unsecured prior to deposit.
- d. The city has two different donation collection sites which have the following weaknesses:
 - (1) Access to the collection boxes is not limited to ensure safeguarding of assets.
 - (2) Collections for these revenues are performed by a sole park employee who leaves the unreceipted moneys with the secretary clerk in the Treasurer's Office.
 - (3) The collection boxes were installed without implementing adequate cash handling procedures.

Planning/Building Department:

- a. The Planning/Building Department's secretary performs all cash receipting, billing, and accounts receivable duties for the department. In addition, the department remits unofficial Rediform cash receipts to the public.

The following rules apply:

RCW 43.09.200 states:

The state auditor, through such division, shall formulate, prescribe, and install a system of accounting and reporting, which shall be uniform for every public institution, and every public office, and every public account of the same class . . . The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipt, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove validity of

every transaction

RCW 43.09.240 provides in part:

Every public official and employee, whose duty is to collect or receive payments due or for the use of the public shall deposit such moneys collected or received by him or her with the treasurer of the taxing district once every twenty-four consecutive hours.

The Washington State Constitution, Article XI, Section 15 states in part:

All moneys, assessments and taxes belonging to or collected for the use of any county, city, town, or other public or municipal corporation, coming into the hands of any officer thereof, shall immediately be deposited with the treasurer, or other legal depository

The city has not implemented proper segregation of duties or developed proper cash handling policies and procedures in these areas.

Without proper cash handling procedures, no assurance can be given that all revenues due to the city have been received and deposited. This weakness is further exacerbated by not using official cash receipts. Rediform receipts are easily obtained and therefore, do not provide an adequate record of the transactions necessary to support the validity of the deposits.

We recommend the following procedures to improve controls over cash receipting:

- a. All moneys received at the Treasurer's Office through the mail should be opened by two people, receipted in immediately, and properly restricted.
- b. The city should implement proper segregation of duties and official cash handling policies and procedures for the city (i.e. treasurer, recreational vehicle parks department, and planning/building).
- c. The city should require all revenues to be receipted in on official, preprinted, prenumbered receipts and to be deposited in a timely manner.
- d. Planning/Building Department revenues should be receipted directly at the Treasurer's Office to strengthen segregation of duties.
- e.
 - (1) Access to the donation boxes should be limited strictly to the persons responsible for donation collections.
 - (2) Two people should always be present from the time of the donation collections until the moneys are receipted on official receipts of the city.
 - (3) No new city revenue sources should be established without implementing proper cash handling procedures.